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Television Commercial Production Cost Trends 1979-1984

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Prepared under the auspices of the A.N.A Agency Relations Committee, this study:

- *Assesses the extent to which production costs have increased.*

- *Analyzes the reasons for such increases.*

- *Provides suggested procedures for better management and control of production costs.*

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FOREWORD

A primary function of the A.N.A. Agency Relations Committee is to identify problem areas, issues and trends that are of concern to the Association's membership and to undertake such studies or activities as may be appropriate to assess the implications of the problem or trend. It has been evident for some time that advertisers are concerned about the escalation of TV commercial production costs.

To meet the needs of members for reliable information on cost trends and the factors that contribute to the increase in costs, a small-scale survey was conducted by a study group headed by Committee Member Robert Klugman, Vice President–Marketing, Adolph Coors Company. The complexity of the subject and the difficulty in obtaining truly comparable information for analysis led to the retention by A.N.A. of Albert P. Stauderman of Bird • Bonette • Stauderman, advertising production consultants. As indicated in the report section on methodology, great care was taken by Mr. Stauderman to assure a valid and objective analysis of the survey results.

The results of the study are being made available to advertisers, agencies, producers and others involved in the television commercial production process.

The A.N.A. Agency Relations Committee is indebted to the advertisers, agency, consultants and other industry leaders who participated in the study; to Mr. Klugman, for his leadership in seeing this project through to completion; and to the A.A.A.A. Client Service Committee, which participated in the review of the study findings.

John J. Powers
Eastman Kodak Company
Chairman, A.N.A. Agency Relations Committee

February, 1985

1. Background/Objectives.

Many advertisers feel that the cost of television commercial production has been rising rapidly from an already lofty base. In a number of cases, advertisers have expressed dissatisfaction with advertising agencies' and studios' perceived neglect of this problem. Many advertisers have added either internal staff or external consultants to help their product or advertising people cope with this issue.

In discussing this situation, the A.N.A.'s Agency Relations Committee noted that while it was unanimously held that production costs were indeed escalating rapidly, there was some disagreement as to what contributing factors were primarily responsible for this trend. With opinions on the roots of the problem divided, suggestions as to what steps advertisers should take also varied.

A small-scale survey was undertaken as a first step in gaining a better understanding of this issue. The results of this study are being disseminated to allow individual companies to use them as they see fit. These findings were also shared with the 4As Client Service Committee by the A.N.A.'s Agency Relations Committee in February, 1985.

2. Methodology

A brief questionnaire (see Attachment "A") was sent to a limited number of companies and to three television production consultants. Respondents were asked to compare the overall expense and constituent costs of a "representative" commercial for the years 1979, 1981 and 1984. Respondents were also invited to supply reasons or hypotheses as to cost change trends.

Fifteen companies and all three consultants responded. Confidentiality precludes the listing of names, but it can be stated that the responses reflect the experiences of large consumer package goods advertisers who produce numerous commercials, keep good records, and often employ professionals to monitor and supervise their production activities. Some companies pulled

the data for their responses from historical records. Others estimated changes through the requested time periods. In several cases, data were provided by advertising agencies or outside consultants. Some responses indicated that the information provided was based on the average of numerous commercials.

In addition, at the request of two clients, four different agencies submitted useful information reflecting a relatively broad base of experience, which they pulled from their cost records.

One advertiser literally re-bid a number of storyboards that had been bid (and produced) in earlier years. The data from this exercise are presented separately in Section 8.

The data were then reviewed by an independent source experienced in production cost analysis work. This was done to assure that the information could be used as a basis for comparison. The objective was to exclude cost information containing grossly dissimilar types of commercials, production techniques, or other factors that would make comparisons from year to year misleading. The result was a smaller sample, which, while coming from only ten sources, reflected a large volume of comparable data.

Finally, background information relating to the findings was obtained from 12 leading supplier and agency authorities. Some of their comments are reflected in the body of the report.

3. Caveats

This survey was *not* intended to be a means of determining the cost of an "average commercial." Indeed the vast spread of costs—from under $20M to over $200M—in even this small sample is articulate testimony to the fact that there can be no such measure.

All data necessarily appear in quantitative form; however, the reader should be mindful of the relatively small sample that these numbers represent.

It should also be noted that the respondent base includes a number of companies that, because of their large expenditures in this area, are likely to have accumu-

lated more expertise in commercial production cost monitoring and control than advertisers who produce a smaller number of TV commercials.

4. Results—Quantitative

Of the 22 questionnaires returned, 10 qualified as usable for the purposes of this report. Comparisons of 1979–1984 costs for this sample showed an average increase of 99%. (The median numbers were 89% and 92% respectively.) For the period 1981–1984, the average increase was 51%. Eight of the responses provided usable comparisons of 1979–1981 costs, which showed an average increase of 37% (see table below).

TV Commercial Production Cost Indices 1979/1984

Source	Index vs. 1979 (100)		%Increase		
	1981	1984	1979–81	1981–84	1979–84
Advertiser	125	148	25	18	48
Advertiser	153	249	53	63	149
Advertiser	—	189	—	—	89
Advertiser	125	160	25	28	60
Advertiser	167	272	67	63	172
Consultant	130	165	30	27	65
Consultant	136	273	36	101	173
Agency	127	192	27	51	92
Agency	—	137	—	—	37
Agency	130	207	30	59	107
Averages	137	199	37	51	99

The range in increases from 1979 to 1984 ran from 37% reported by one agency to 172% reported by an advertiser and 173% by a consultant. Smaller percentage increases were reported for simple, low-end commercial work, while above average increases were incurred by the more elaborate, expensive productions.

The 99% increase in production costs presents an interesting comparison to the Consumer Price Index (CPI) which rose from 217 in 1979 to (estimated) 311 in 1984, an increase of 43%.

In the component areas, the average cost increases were as follows:

	% Increase 1979-1981	% Increase 1981-1984	% Increase 1979-1984
Director	33	38	82
Preparation and wrap	55	37	113
Shooting crew labor	38	41	96
Location and travel	58	39	119
Props and wardrobe	114	55	232
Studio and set construction	19	139	185
Equipment costs	29	44	86
Film stock and processing	37	7	46
Production fee	40	41	97
Talent costs and expenses	52	53	132
Editorial and finishing	36	28	74
Special effects/animation	*	*	*
Audio track cost	43	24	78

*Insufficient data

In addition to the cost information, a question relating to the number of hours required to shoot a :30 commercial elicited this revealing data:

Shooting Hours/Commercial

# Hours			% Increase		
1979	1981	1984	1979-1981	1981-1984	1979-1984
10.1	11.8	13.3	17	13	31

5. Results/Qualitative

A. Overall, advertisers considered the primary reason for increased costs to be longer, more complex (even within the context of the "representative commercial" concept) shoots.

This thesis is confirmed by the survey numbers. The "hours neeeded to shoot" figure jumped 31% from 1979 to 1984. To the extent that longer hours affect many other major items (director, crew labor, equipment, etc.), this "longer hours" phenomenon, especially when coupled with inflation, emerges as a key reason for rising production costs. It is important to recognize that the extra hours are almost always overtime hours.

Why longer hours? Three reasons emerged from respondent comments and from discussions with studio and agency experts:

1) "More complex" commercials (more setups, higher costs, bigger sets to light and dress, etc.) were cited by most sources.

2) A desire to achieve higher standards of quality, "more exactitude," etc. This perfectionism results in increased time lighting, rehearsing and shooting. Related to this is the widespread current use of video playback on set. This allows agency and client people to scrutinize work already done and to try to surpass or vary it. Both the acts of reviewing previous "takes" and of attempting to improve or change them can add significantly to production time.

3) A recent tendency to shoot commercials singly and thus to use all available time on *one* commercial, rather than to move on to another spot. (Shooting commercials in groups or "pools" was formerly a more common practice.)

B. Other items cited by respondents as major contributors to rising costs included:

- Audio track cost—increased considerably for a number of companies, particularly because of the increased use of music and the costs of composition, arrangement and production.
- Set construction—increased significantly (185%) owing to cost of materials and increased size and architectural complexity of sets.
- Special effects/animation—appearance as a major new cost noted by five respondents.
- Directors' fees—up substantially, particularly for "superstar" directors (some are now charging up to $10–12M per shooting day, an amount that seems excessive even when considering the several "free" days of planning and preparation they usually put in for each day they spend shooting).
- Preparation costs—increases are seen partly because of "pre–light" days in which the set is lit *prior* to the shoot day. These pre–light days were uncommon prior to 1980.
- Equipment costs—including more expensive camera systems and lighting packages in production, and sophisticated video post–production equipment frequently used instead of film.
- Talent costs—up dramatically (132%) according to the survey, despite the fact that scale rates have increased only 27% since 1980. Explanation lies in combination of longer work days with overtime employment, multiple day shoots, and more cast members.

C. While commercial costs have increased around 100% during the five–year period, advertisers and suppliers whose records track the "unit cost" of specific items of production (daily salary rates, rental fees for individual items, etc.) point out that these unit costs have increased only around 40–50%. This amount is right

in line with the 43% CPI increase. The reason that commercial costs have doubled, simply, is *more units*—more time, more people, more equipment.

6. Respondents' Comments

While some respondents simply noted that increased costs were a necessary concomitant of their business decision to do more complex spots, the majority expressed concern and even anger about this trend.

In many cases, the responsibility was placed on agencies, e.g.,

- *agencies, particularly agency creatives, are not sufficiently concerned about costs.* In general, respondents observed that creatives had little motivation to save dollars. To the contrary, it was felt that creatives understandably were at times desirous of creating impressive (and costly) executions. At the very least, it was thought that cost-control considerations were a low priority vs. "quality" creative.
- the influence that agency producers have over costs is limited. Two observations were common. First, respondents observed that agency production people tended to lack authority, especially vis-à-vis creatives, within the agency hierarchy. Second, it was felt that, partly as a result of this lack of status, the number of highly qualified agency line producers has declined over the past decade.

Studios/directors are cited:

- "Increased use of star directors" (figures for the 1981–84 period would seem to confirm this statement)..."current directors have expensive work habits."
- But in most cases they seem to be portrayed as the fortunate recipients of agency largesse, rather than the instigators of the problem
- Finally, some advertisers point out their own mistakes or shortcomings:
  "Inexperienced product managers find it difficult to resist senior agency peo-

ple". . ."poor planning, leading to rushed production". . ."we are caught up in the trend toward 'commercials as events'."

7. Agency and Supplier Comments

Expert sources from several agencies and suppliers were canvassed for their reactions to the cost increases. In general, they echoed the findings of the survey and also expressed concern over the trends noted. Not surprisingly, they pointed to the requirements of advertisers as important reasons for the increase. Mentioned frequently was a tendency for advertisers to set no limits on cost going in, then to complain loudly when the final bill arrived.

Several studio and agency management people were openly critical of the cost impact of the process now used by some agency creative persons to select directors. Director selection is believed to be based, in certain cases, more on the apparent complexity and cost of the commercials on the directors' sample reels than on a personal knowledge of the director's skill and his aptitude for the specific job being awarded.

Post-production suppliers pointed to the increased layers of approval at agencies and companies as reasons for increased number of revisions and thus of cost.

8. Result of Re/Bid

One advertiser asked its television production consultant to re-bid a number of 1979 and 1981 spots to get a very direct comparison of relative costs and methods in 1984. Six re-bid packages (two from 1979, four from 1981) produced results that were startingly similar to those yielded by the general survey:

	% Increase Survey	% Increase Re-bids
1979–1984	+99	+98
1981–1984	51	62

In the component areas, the average cost increases for re–bids were as follows:

	% Increase 1979-1984	%Increase 1981-1984
Director	77	65
Pre–production and wrap	167	220
Shooting crew labor	133	42
Location and travel	—	72
Props and wardrobe	(4)	120
Studio and set construction	106	380
Equipment costs	152	41
Film stock and processing	43	27
Production fee	126	77
Talent costs and expenses	95	115
Editorial and finishing	115	4

There are some discrepancies between individual component escalations in this study and those in the general survey. However, sharp increases are again found in preparation, set construction and talent.

9. Summary and Conclusions

Television production costs have escalated at about twice the rate of the growth of the CPI. It is probably fair to conclude that the trend toward more complex commercials and/or longer shoots is a major contributor to this trend. It is significant that only about half of the cost increase can be accounted for by an increase in unit costs—the rest is a result of more units being used.

While the survey's stated objective was to quantify the factors behind the cost escalation trend, the questionnaire and the various follow-up probes elicited a significant number of suggestions as to what steps advertisers shoud take to deal with these cost increases. Comments were concentrated in the following areas:

Agency Communications/Procedures. These suggestions included:

- giving the agency a budget or maximum dollar figure per commercial.

- requiring a "ballpark" estimate from the agency before approving storyboards for bidding (with special caveats if the commercial involves special effects).
- establishing and enforcing strict procedures for approving overages.

Timing. By far the most common observation was that allowing adequate time in the production schedule was the simplest and most effective way to generate cost savings. Ideally, the schedule should have enough slack to provide for re-bidding a commercial (if necessary) as well as to permit the agency and production house to have ample time for pre-production, including, where appropriate, the finding of suitable locations so that sets do not have to be built.

Client Procedures. These suggestions included:

- pooling the production of commercials where possible, rather than shooting one at a time.
- getting estimates for the costs of post-production revision requests before additional editing work is actually done.
- minimizing the number of levels required for creative approvals and/or making the approval process simultaneous rather than sequential.
- considering the hiring of an internal staff television production expert or an outside consultant.

Every advertiser will want to approach this area in the manner best suited to his or her company's situation. As one consultant commented, "It's your money and your approval. You can control production costs if you are truly committed to doing so."

ATTACHMENT "A"

A.N.A. Survey on Television Commercial Production Cost Trends

For any one "representative" commercial (that is, representing the sort of execution your company has had extensive experience with) please indicate for the years 1979, 1981, 1984 the grand total of production costs (including Director's fees), as shown on the AICP forms.

	1979	1981	1984
Total cost of a "representative" commercial	$	$	$
Number of shooting days or hours	$	$	$

If the number of shooting days or hours has increased, please identify the key factors that accounted for the additional time:

Using 1979 as a base year, indicate by percentage or dollar amounts how each of the major elements of cost of a "representative" commercial has increased in 1981 and 1984:

	1979	1981	1984
1. Director			
2. Pre-production and wrap			
3. Shooting crew labor			
4. Location and travel			
5. Props and wardrobe			
6. Studio and set construction			
7. Equipment costs			
8. Film stock and processing			
9. Production fee			
10. Talent costs and expenses			
11. Editorial and finishing			
12. Other			
Grand Total			

	1979	1981	1984
Special effects or animation cost (cel or computer)	_____	_____	_____
Audio track cost	_____	_____	_____
Average quantity of film shot for a :30 commercial	_____	_____	_____

Comments and/or observations: _____

_____

_____

_____

_____

Your name _____

Company _____

Please send your completed survey (or direct any questions) to:

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